ments that he wishes to file in time for the committee to respond to it before we close the record.[1]

Mr. Petty, the sale of logs from privately held timber is taxed as a capital gain, which I understand is about 25 percent. Logs manufactured into lumber by the same company are taxed as corporate income, which I understand is around 48 percent. Is Treasury more interested in the income from tax implications of the unrestricted log-export problem as well as the balance of payments or taxes paid?

Mr. PETTY. I do not know that an either-or question has been presented, Mr. Chairman.

Senator MORSE. You have no answer to the question?

Mr. PETTY. I am not sure I understood it.

Senator MORSE. Under the present situation there is a decrease in the possible collection of taxes attributable to the shipping logs to Japan, rather than finished products, because the former sales are taxed at 25 percent, while the latter would return 48 percent. Thus, requiring exports of processed lumber would change the tax situation in addition to assisting the balance of payments by exporting higher value items. Isn't that so?

Mr. PETTY. Certainly in balance-of-payments terms, Mr. Chairman, the corporate income tax of 48 percent coming from processed lumber which would be exported, I think in the example you cited, would certainly have both larger balance-of-payments receipts and larger taxes paid.

Senator MORSE. Is it not true that if Japan were to purchase more lumber and fewer logs, the tax received would be higher and the balance of payments would at least not suffer?

Mr. PETTY. Yes, I think that is true.

Senator MORSE. As you know, this chairman has, from the very beginning, even in informal conversations, tried to urge our administration to lay down a floor in the negotiations, so that it can say to Japan: "You are not going to get more logs than this quantity and if you want any other lumber products from us, you have to purchase finished lumber." Yet we are told that the administration apparently does not want to lay down that floor. I can only suppose they do not want to offend the Japanese, if they think that will offend them. But even if they were to be offended the administration has a primarily responsibility, may I say, is to protect our lumber economy in this country. It now appears from our discussion that by taking such a position, the administration can also give us the best protection of our balance of payments.

The burden of the Treasury report seems to be again more foreign exchange for this country by selling more logs from Alaska to Japan. Yet you heard Mr. Cliff testify today as to the Alaskan policy of restricting logs to Japan since 1928. If we had not done that—I interpret him, I think accurately—it is the view of the Forest Service that we would have prevented the construction of mills in Alaska, would have prevented investments in Alaska, and would have left them with a much smaller income than would have flowed from the exportation of their great natural resources of timber as logs.

Well, why do you not seek foreign exchange earnings by selling more timber from other parts of this country, and by coming out definitely for a floor of restrictions on the export of logs?

[1] See p. 1165, infra.